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MASTER OF MILITARY STUDIES

UNITED STATES MILITARY NON-DISABLED RETIREMENT PAY: LET IT STAND!

SUBMITTED IN PARTIAL FULFILLMENT
OF THE REQUIREMENTS FOR THE DEGREE OF
MASTER OF MILITARY STUDIES

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Preface

Military Retirement pay is a force multiplier when it comes to ensuring that the force is kept at a size that fits the needs of the country and ensures that the top performers are the ones who rise to the top. Over the years there have been numerous changes to the military retirement pay system, typically during a national financial crisis, most of which have had a negative impact on the retiree. The United States once again finds itself in a financial crisis and all stops are being pulled to keep the country afloat. As is typical in this scenario military retirement pay has gained some attention and proposals for change have been suggested. As could be expected these proposals would not favor the military retiree and one proposal actually suggest that the United States break its faith with active duty service members and change the retirement system in such a radical way as to affect those who currently serve. This paper goes into the background of the military retirement system and how it differs from the private sector, it also delves into the reasons the system has evolved in the manner in which it has and that the results of changing this system in the ways suggested would have dire consequences.

I utilized the Gray research center to conduct a majority of research, utilizing both the written and electronic means available. A majority of the material used from the Gray research center was historical in nature. I therefore also utilized the internet to locate more recent material to finish the conduct of research required for this paper.

I would like to acknowledge my mentor, Dr. Richard DiNardo. I appreciate his expertise and keen insight into the Operational Art of the ages. His mentorship throughout this process has been phenomenal and words alone cannot express my heartfelt appreciation. His ability to keep me focused on the end state was truly amazing and I could not have done this without his excellent tutelage.

EXECUTIVE SUMMARY

Title: United States Military Non-Disabled Retirement Pay, Let it stand!

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Thesis: Those who propose changes do not fully appreciate the different demands between the typical civilian sector employee and a military member. The proposed changes have the possibility of potential savings, however the actual cost would far outweigh the potential gains, the loss of the retirement system as a force management tool would lead to an unbalanced force whose top performers would no longer have the incentive to remain on active service long enough to make a notable contribution.

Discussion: The United States military non-disabled retirement pay system beginnings are traced back to the early 1860s and it was initially developed in an effort to reduce the numbers of older personnel who could no longer function in the roles assigned. There have been numerous changes over the years; however the system as a whole remains very similar to its original state. Many of the larger changes that have occurred over the years have been at the expense of the military member to include the implementation of the High 3 and Redux. There have been other changes initiated that did not directly affect the retirement pay of military members one in particular would be the Military Retirement Fund. The fund was established in 1984 after it was discovered that the military pay as you go retirement system did not account for future retirees instead it covered the current retirement population in its budget formulation. In each of the instances that change was implemented, whether it directly affected a retiree or not, the United States was in a period of financial constraints. This is exactly where the United States finds itself today and once again the possibility of changes to the military non-disabled retirement system is being contemplated. Most of the proposed changes are not earth shattering as they have been brought up before in times of financial crisis. There is one new idea that has been proposed, the only one in which those already serving will feel the effect. This proposal does not completely take away a members retirement, but it does radically affect the percentage of retirement benefits. This proposal differs from the rest mainly due to the fact that active duty personnel would also be affected. For the government to change the contract of individuals on active duty would be in essence a breach of contract.

Conclusion: The vast differences between a civilian sector employee and a military member are numerous and exemplify the need for a different type of retirement system. The current military retirement pay system is the most promising option that is available to ensure that we recruit and maintain a force that is able to carry out the strategic objectives of the United States, to radically transform the current system in an effort to save money without considering the wide scope of possible ramifications could prove disastrous.

Since its beginning The United States of America has been engaged in many situations that required the use of military forces and as the world changes the United States will continue to protect its interests in any clime and place. It would not be possible to protect the United States interests internationally unless it continues to maintain a top notch standing military that is highly qualified and possesses the best equipment possible. The most efficient way to ensure that the best and brightest military personnel are retained for the correct amount of time is through the use of force management tools. One of the oldest and most effective of these force management tools is the military retirement pay system.

The U.S. did not officially have a large standing army before the outbreak of World War II, however a military retirement system was initially established in 1861 and although there have been changes to this system for the most part it is essentially remained unchanged. When changes to the military retirement system have been made it is generally when the country is undergoing some sort of financial crisis, which is exactly where the country finds itself today and once again there has been speculation on changing the military retirement pay system. Those who propose changes do not fully appreciate the different demands between the typical civilian sector employee and a military member. The proposed changes have the possibility of potential savings, however the actual cost would far outweigh the potential gains, the loss of the retirement system as a force management tool would lead to an unbalanced force whose top performers would no longer have the incentive to remain on active service long enough to make a notable contribution.

The United States has a long and proud military history that has forged a sense of national pride and unity and has played a distinct role in its history. From the American Revolutionary

War to the conflicts in Iraq and Afghanistan the United States military has performed its duties in an exemplary manner. This is in large part due to the sense of unity that has been created by the country's ability to come together as a nation and stand behind our military. By supporting the military not only by word, but by supporting the military's ability to man, equip, and train as necessary to remain viable. The ability to properly man the armed forces is a key component in remaining a viable force in readiness. In contrast to the civilian sector workforce the military force must be young and vibrant:

Most civilian sector pension plans require employees to reach normal retirement age (typically 62-65) to be eligible for an unreduced retirement annuity. However most civilian employers do not require youth and vigor of their employees, nor are they necessarily concerned about providing opportunities for advancement for younger personnel.¹

In order to ensure that the vitality of the force is kept in line with what is required there must be an adequate means of managing the workforce otherwise you either have stagnation in the ranks with older personnel being allowed to stay much past their usefulness or you could have the other extreme with a force that is too immature and inexperienced. The possibility of stagnation or superannuated officers was evident in the mid 1800's and was what prompted the development of either voluntary or involuntary retirement of active duty members from military service.²

The unsatisfactory personnel conditions in the Regular Army which prompted these repeated recommendations of the War Department that Congress provide some form of retirement for the Regular Army were emphasized during the extended field service required over the period 1812-1861. While the law provided a pension of one-half pay for disabled officers, there existed no

provision for compulsory separation from active service of old and disabled officers; there was no limit to active service save by dismissal or resignation of the officer. Thus, an officer could remain on active duty until death, despite incapacity due to old age, physical disability, ect. In consequence, many junior officers exercised commands in the field beyond their rank, the old and disabled officers who should have exercised these commands being left behind—often on leave—whenever field service was performed.³

The inability to relieve the older officers from duty was the initial force behind the development of the military non-disabled retirement pay system. The first form was initiated in the Act of August 3, 1861 which authorized the voluntary retirement, at the discretion of the President, of Regular officers of all branches of service after 40 years of duty.⁴ The Act of August 3, 1861 was the beginning of the military non-disabled retirement pay system, there has been changes over the years that have built up to the system that is in place today. However the system has remained remarkably stable since the Civil War with marginal changes that span decades.⁵

The first of these changes was the Act of July 15, 1870 where officers of the Marine Corps and Army were authorized voluntary retirement at 30 years of service with a maximum of 75% of base pay. These authorities were eventually extended to enlisted personnel of the same services and later to naval personnel both officer and enlisted. The Act of August 29, 1916 delivered two new components to the nondisability retirement system.⁶ First of these changes was the up or out promotion system which is still in existence today and utilized as a force management tool in order to force out those personnel that have failed to be promoted. The second component put in place by the Act was the retirement pay calculation that was in use

until 1980, which was to take 2.5% of the member's final month of base pay and multiply that by the number of service years for up to 30 years not to exceed 75%.

There were minor changes to the system from 1916 until the mid 1940's; however the next modification to the system was brought about by the Act of February 21, 1946. The Act of February 21, 1946 lowered the age of retirement from 64 to 62 and allowed officers with at least 10 years of commissioned service to retire after 20 years of service; this would be calculated using the 2.5% computation for years of service.⁷ The purpose of these changes were to alleviate the officer build up that had occurred during World War II, and once again modifying the retirement system in a way that would accommodate the restructure of the active duty force.⁸ The ability for an officer to retire after 20 years of service with at least 10 commissioned is still in effect today.

The Army and Air Force Vitalization and Retirement Equalization Act of 1948 extended the 20 year voluntary retirement with 10 years of commissioned service to Army and Air Force officers, marking the first time in history that all branches of the service had voluntary retirement authority.⁹ After World War II the United States began to feel the cost associated with the retirement system and began to try and devise ways to defray or minimize these costs.

The Cost of Living Allowance (COLA) was modified by the Act of May 1958 to a flat 6% increase as opposed to linking it with active duty pay which would have cost twice as much. There have been many changes to the COLA over the years and in each instance it has been to achieve a monetary savings at the cost of retirees. However, this did not yield enough savings and subsequent changes would directly impact the retirement pay system itself.

Public Law 96-513 was the first major change to the retirement system since its inception it made moderate alterations to the computation method for retirement pay. Instead of using the last month of active duty to compute the retired pay the law changed the computation to the average of the last 36 months of active duty or to what is commonly referred to as the High 3 formula.¹⁰ To compute the new formula you take the average of the highest 36 months of pay, which is typically the last 3 years of service, and multiply that by 2 1/2% times the years of service to arrive at the monthly retirement pay. This was the first attempt to change the actual retirement pay system in a way that altered the system in a manner that reduced the pay of retirees.

The new formula was enacted on September 7, 1980 and all service members who joined after this date fell under the new plan. The new plan was a bold move and encroached on territory that many felt was sacred. To the credit of those who initiated the new system they kept faith with those who had joined before September 7, 1980 and those personnel were allowed to remain under the previous retirement system. This plan was initiated from congressional concerns: the increasing cost associated with military retirement, the desire to increase the pay for active duty personnel, and the possibility of reducing future retirement costs.¹¹ Now that retirement pay has been modified to decrease the benefits of the retiree the door had been opened for more changes in the future.

In 1984 it was realized that the manner in which the Department of Defense (DoD) budgeted and funded retirement pay was not taking into consideration future retirees. The process before the change in 1984 was referred to as a pay as you go system, in which the DoD would include retirement benefits as part of their annual budget submission for those personnel who were

currently receiving retirement benefits.¹² This process paid for those who were receiving retirement benefits during the actual year in which the budget was based; however it did not take into consideration the future retirement benefits of those who were currently serving on active duty. The lack of proper accountability for future retirement liabilities before 1982 led to the discovery of a staggering \$527 billion shortage.¹³ On top of the existing liabilities the possibility of also ignoring potential larger longer term costs of future retirement was an issue as those in charge of making decisions did not consider anything but the immediate budget.¹⁴ The discovery of unfunded retirement liabilities forced Congress to take immediate action to ensure that the DoD began to utilize a different concept for retirement funding that took into account future liabilities. The action that was taken by Congress was passing the Defense Authorization Act in 1984 which established the Military Retirement Fund (MRF):

There is established on the books of the Treasury a fund to be known as the Department of Defense Military Retirement Fund, which shall be administered by the Secretary of the Treasury. The fund shall be used for the accumulation of funds in order to finance on an actuarially sound basis liabilities of the Department of Defense under military retirement and survivor benefit programs.¹⁵

The DoD could no longer utilize the pay as you go system of the past they were now forced instead to move to an accrual-based accounting and budgeting system.¹⁶ Development of the MRF was a key component in ensuring that the DoD was looking forward and taking care of its current and future retirement liabilities. It also helped to ensure short and long term security for retired service members. The MRF did not alter retirement pay, however since retirement

benefits were changed to pay for the force currently on active duty a reduction in that force would have short term monetary gains without long term effects.

The next change to the retirement pay formula was extensive in nature and was enacted by Public Law 99-348. The new law took effect on July 1, 1986 and targeted the personnel entering the military after July 31, 1986. The personnel entering service after July 31, 1986 were credited with only 2% for the first 20 years of service and 3 ½ percent for each year up to 30 years not to exceed a total of 75%. Those who retire before they reach the 30 year mark would experience a recomputed annuity at age 62 (See Appendix A) to equal the amount of annuity as if they had received 2 ½ percent for each year of service.¹⁷ There is also a bonus associated with this new pay system the member receives a lump sum payment at the 15 year mark of \$30,000 and the member commits to serving at least 20 years, if member leaves before 20 year mark a repayment of the \$30,000 would be calculated on the time remaining until the 20 year mark.

The name commonly associated with this system is REDUX. This latest addition to the retirement plans brought the number of possible retirement plans to 3 (See Appendix B), with the latest version being the most radical of the 3. In comparison the 3 retirement plans currently in place show a decline in the net earnings for retirees, meaning that with the development of each new plan the dollar amount a retiree could expect to receive became less. There would be no additional major changes to the retirement system until 2006; however in 2001 military members were authorized to participate in the Thrift Savings Plan (TSP).

The Thrift Savings Plan (TSP) was established by Congress in the Federal Employees' Retirement System Act of 1986, it offered Federal Employees' a viable investment plan and an instrument to save for retirement.¹⁸ In many ways this retirement option is very similar to what a

person could expect in a position held in the civilian sector receiving a 401 K Pension plan. It is a defined benefit plan in which the employee contributes a portion of their salary and is typically matched at a certain percentage by their employer. The plan that is in place for Federal Employee's match's contributions up to 5 percent, the first 3 are matched at 100 percent and the remaining 2 are matched at 50 percent. Inside this plan there are 5 different funds which one can invest: the Government Securities Investment (G) Fund, the Fixed Income Index Investment (F) Fund, the Common Stock Index Investment (C) Fund, the Small Capitalization Stock Index Investment (S) Fund, the International Stock Index Investment (I) Fund, and the Lifecycle (L) Fund.

Military members were able to become TSP members on October 9, 2001, thanks to the National Defense Authorization Act for fiscal year 2001. The system in place for military members is very similar to that of their civilian counterparts. One of the main differences between civilian and military members is that on the military side of the house the government does not match any of the contributions made by the member. The lack of government matching contributions is in large part due to the military members retirement pay, the TSP for military members is not meant to serve the same purpose as their civilian counterparts, TSP is meant to serve as a supplement to military retirement pay.

Public Law 109-364 was enacted on October 17, 2006 it removed the previous cap of 75% base pay with 30 years of service. The law made it possible for members to continue to receive 2.5% raise in retirement pay after 30 years allowing them to receive a full 100% at 40 years of service.¹⁹ The move to extend the percentage to a full 100% at 40 years of service is a change enacted in order to retain some of the military's top performers in the ranks. The increase in life

expectancies within the United States allowed officers to remain both mentally and physically up to the task of serving longer within the military. The move takes the United States back to the origins of military retirement where up until 1870 the normal voluntary age for retirement was between 40-45 years of service. Over the years the military retirement pay system has evolved into what is in effect today, there are many reasons why the system has evolved in the manner it has.

As early as the 1800's leaders in the United States were beginning to become aware of the urgent need to initiate controls over military personnel management. This initial awareness rose out of the need to structure the force in such a way that the force would remain a viable fighting organization. Those members that was no longer physically or mentally able to carry out the types of missions that would be required needed to be removed from the ranks, however even in these early days the administration understood that there would be a need to take care of the retired aging military population.

Which brings the question of why should the military retirement pay system be different from any other organization's retirement system? One of the most significant reasons for the difference in retirement pay systems would be the fact that the military must always remain a youthful and viable fighting force, which means that tools like the military retirement pay system must be in place to ensure that youth and vitality are maintained. The military retirement pay system is first and foremost a force management tool, assisting the DoD in ensuring that only those members who are top performers both mentally and physically are allowed to remain in the service. Those members who are not top performers and therefore are not selected for the next higher rank are forced to leave the service after having failed selection to the next higher rank.

The only exception to the up or out rule is for Staff Sergeants on the enlisted side and for Major's on the officer side, these members are allowed to remain on active duty until their 20 year mark and authorized retirement. The rationale behind the Staff Sergeant and Major being allowed to serve 20 and retire is the fact that these members are typically over the 10 year mark and are considered careerist. Also once a member retires it does not mean that he/she cannot be called back to active duty if needed.

All members of the uniformed services are subject to recall back to the active duty ranks: It is DoD policy that military retirees are ordered to active duty as needed to perform such duties as the Secretary concerned considers necessary in the interest of national defense.²⁰

The recall of retired military members back to active duty does not occur frequently, but the possibility of recall is a constant reality. The DoD categorizes retirees into 3 distinct categories described below:

- Category I. Non-disability military retirees under age 60 who have been retired less than 5 years.
- Category II. Non-disability military retirees under age 60 who have retired 5 years or more.
- Category III. Military retirees, including those retired for disability, other than categories I or II retirees (includes warrant officers and health care professionals who retire from active duty after age 60).

Those military retirees that are called back to active duty do not have a choice, unless extreme circumstances exist, whether they will come back on active duty and perform the duties assigned.

In stark contrast to the recall ability of the DoD, once a civilian sector employee retires they are not subject to any type of recall by their employer. Thus the ability to recall military members serves as another major difference between the military and civilian retiree.

Another of the many differences between the military and civilian sector retiree is the type of service that is required of these different individuals. The main reason that the military requires youth and vigor is due to the extreme hardships of training, deployments and the actual conduct of military campaigns. The typically civilian employee does not have to endure the extreme deprivation and hardship that accompany the active duty life of military members.

The average military member executes a Permanent Change of Station (PCS) move every 2 years, which equates to 9 moves within a 20 year career (See Appendix C). The number of PCS moves that the average military member executes is 3 times higher than that of a non-military family.²¹ The frequency of these moves can also have a negative effect on the member's family. If the member is married and has children they must also endure the multiple issues associated with a PCS move. On average over half of active duty service members are married and over 40% of those married also have children.²²

Also if the spouse has a career each time the military family moves the spouse must either decide to give up his/her career or go through the tedious rigors of finding a new job in each new area in which they are located. The unique challenges that face the military family also have an impact on children, as the military family transitions from one location to the next military children must attend new schools. The presence of a DoD school is not always an option, so children must adjust not only to new classmates but must also adapt to changes in standards and protocol at each new school.²³ Not only do military members move frequently during their

career the family must also endure the hardships and loss of member during exercises and deployments.

The number of deployments and exercises that an average military member will be involved in will also add to the stress of the military member's career and family life. Currently the United States Army is rotating units with an average 12 month dwell time before the next deployment and they are attempting to increase the dwell time to 24 months.²⁴ In the interim the families of deployed service members must cope with the loss of the member during exercises and the actual deployment. Even after the current conflicts come to an end the exercises and deployment of military members will continue to exact a toll on the military family. This toll on families is felt at all levels of the military, however none so much as the junior population or first term members. Nearly half of the military active duty force is under the age of 26 and these young families who lack the life skills necessary for dealing with stress in a proactive manner are at the most risk.²⁵ The strain put on the military family due to excessive periods of separation is a real issue that has to be endured during a member's time on active duty. Also once the member's career in the military comes to an end the member is often times left behind in not only a marketable skill set but due to the age of the retiree they may also be at a disadvantage for second career job opportunities.

When a military member retires from active duty and moves on to the next phase of life it is typically necessary to begin a second career. The military member has been performing a job in his/her MOS for 20 years or more that often times do not translate well to a civilian profession. What this means to the military member is that upon retirement he/she will be either unable to obtain a lucrative position in the civilian sector or options will be severely limited leading to a

decrease in income which is referred to as second career income loss. The second career income loss will be more prevalent among those members who were serving in specialties that deal with combat arms or other similar specialties, prompting these members to try and remain on active duty for longer periods of time.²⁶ However, the personnel in these occupational specialties are the ones that DoD must encourage to leave early because of the pronounced requirements for youth and vigor the combat arms demand.²⁷

Two potential financially viable career options for retirees that would appreciate and be able to capitalize on their specialty and general military knowledge would be a General Service (GS) employee or a contractor/business that provides goods or services to the DoD. The ability to transition into either the GS ranks or those of defense contractors/businesses would be beneficial in many cases to the military retiree, but the truth of the matter is that these positions are in high demand and cannot accommodate the large population of members choosing to depart the military and the retirees that leave the service each year. The majorities of military retirees are not able to transition into the GS ranks or defense contractors/businesses and are thus forced to begin their second career in other areas where they will in many cases face a loss of income. The loss of income due to retirement and subsequent employment at a lower income rate has a negative impact on the entire service member's family. This often times leaves the service member in a financial crisis that forces the downsizing of living accommodations and transportation options basically turning the service member's financial and personal life upside down.

The military retirement system is in part a measure that is in place to provide the retiree with some sense of financial security upon retirement. Without the security of the retirement benefits

there would be no incentive for members to remain on active duty to 20 years or beyond.

Although there has never been a study conducted on the long term effects of the removal or complete overhaul of the current military retirement pay system it is likely that most military members would leave active duty if a more lucrative civilian position were to become available.

Those members that choose to remain on active duty for 20 years and beyond would most certainly not be the top performers, but would be those members that were unable to gain acceptable employment elsewhere. This would have huge impacts on the readiness and ability of the United States military to conduct operations and effectively defend the nation and its interests abroad. Over the years there have been many studies on the military retirement pay system, many of these studies have discussed both the benefits and shortfalls of the system, they have also offered different options that could be adopted in place of the system.

A proposed change to the military retirement pay system has been the earlier vesting of members. The current system as it stands today does not vest a member until that member has reached the 20 year mark of service. This proposed change would allow members to begin the vesting process at some point between the 10 to 15 year marks of active duty service, however the individuals that begin vesting during this period would only receive retirement's benefits at whatever the normal retirement age for the general population is at that time.²⁸ The proposal would not alter the current vesting of those members that remain on active duty past the 20 year mark of service.

Although this plan does address one of the largest inequities that exist in the current military retirement pay system, not rewarding those members who serve their country but do not reach the 20 year mark, it does not address the issue of why retirement pay benefit changes are being

scrutinized. As is consistent throughout the proposed and actual changes that have occurred in the military retirement pay system over the years, it is all about a reduction in spending. Earlier vesting would not reduce retirement benefits; it would have the exact opposite effect and would significantly raise the costs associated with military retirement pay. A system that begins vesting at such an early time would also serve to keep sub standard performers in for more than their initial term of service in hopes of attaining a guaranteed retirement payout even if it does not begin until much later in their life.²⁹ The option of earlier vesting for military members would address some valid concerns with the current system, but it would not be received favorably in a financially constrained environment. There are other options that have been proposed for the modification of military retirement pay; earlier vesting for military members is the only option on the record that would be favorable to military members.

Use of a 401k type based retirement plan has also been discussed as an option to replace the current military retirement pay system. A 401k is a retirement account with defined contribution plans with a yearly maximum contribution amount. These plans can either be employee only or the employer could match the contribution up to a certain percentage. There are many similarities between the governments TSP program and a 401k. The TSP basically serves as the federal government employee and the military members form of a 401k. Both of these plans work on a tax deferred basis meaning that no taxes are taken out of the initial contribution, but the funds are taxed when a member makes a withdrawal. Currently the military member does not generally receive matching contributions. The proposal would extend matching benefits to military personnel and effectively replace the currently military retirement pay system. One also suggests gradually increasing the amount of government matching percentage as the members move up in the ranks and slowly tapering it off toward the end of a career.³⁰

The current use of TSP is very beneficial to military members, even if they receive no matching contributions; it allows members of all ranks and ages to begin to save for retirement which in turn provides an additional sense of financial security. However even if the military members contributions were being matched up to a percentage point by the government it would not replace many of the features discussed in the current system. First of all the younger the member is the less likely they will invest in the plan and the smaller amount of money they will have available to invest. Also the funds invested into the TSP would not be available for use without penalties until normal retirement age which would not provide any type of security or second career income loss once a member retires. The overall amount of funds available would pale in comparison to the current military retirement pay a member would receive over his lifetime with the current military retirement pay system.

The Rand Corporation is a nonprofit organization that dedicates its resources to assisting companies in their policy and decision making by research and analysis. Rand has conducted numerous studies for the Department of Defense under the National Defense Research institute; they have conducted numerous studies of the military retirement system. In one of those studies it was concluded that the military should convert to a system similar to that of the civilian government employee a system called the Federal Employees Retirement System (FERS). The FERS system came into effect in 1987 replacing the old system which was called Civil Service Retirement System.

The military equivalent of this system would be named Military Federal Employees Retirement System (MFERS). The MFERS would operate essentially the same as FERS and would consist of three parts: (1) a defined benefit plan called the “basic benefit plan” where the

member's benefit is predetermined by a formula, (2) a defined contribution plan called the "thrift savings plan" where the member's benefit is determined by market forces and where workers have several withdrawal options should they separate from federal service, (3) Social Security benefits.³¹

Similar to FERS the benefit plan under MFERS would vest members at 5 years of service; members would need to contribute a certain percentage of their base pay. Upon retirement their calculated pay would be 1% of the member's highest three-year average pay multiplied by the years of service to determine their retirement pay (See Appendix D). Military members would be eligible for TSP with the same rules that govern the civilian government employee. Military members would also be taxed for social security benefits under this plan so in essence there is no difference as far as social security is concerned between MFERS and the current military retirement pay system.³²

On paper this proposal seems to be legitimate, however upon taking a closer examination of the retirement benefits it is clear that retirement benefits would be drastically reduced. The largest benefactors of this plan would be those members who had not reached 20 years as under this proposal they would be rewarded with a modest retirement after the initial vesting of 5 years. Members serving 20 years or more would be the ones to bear the brunt of the changes contained in this proposal. Upon retirement there would be no immediate annuity unless they had served long enough to reach the retirement age, nor would the amount of compensation at that time come close to the amount that military retirees would receive under the current military retirement pay system. The proposals that have been discussed thus far originated before the

1990's, as the United States once again finds itself in a financially constrained environment the call for possible changes within the military retirement pay system have begun again.

The new calls for transformation of the military retirement pay system began as early as 2009; the cause was mainly due to the exacerbated costs associated with the United States conducting two wars simultaneously. All of the new proposals for change center around the use of some sort of a 401k system to replace the current military retirement pay system and are firm on the idea of grandfathering all of those members currently on active duty. None of these proposals are really ground breaking in their suggested design except for one. The plan proposed by a DoD panel also centered on a 401k based system; however this plan is the only one on record that basically ignores the need to grandfather current troops into the old retirement pay system. The plan which was headed by a former Marine pilot suggests that the DoD should make an immediate transition to the new system which would have varying effects on the troops who are currently serving on active duty.³³ In this proposal there would be varying degrees of annuity options depending on years of service, but no member would receive an immediate annuity upon retirement.

Those members initially joining the military would have no type of fixed annuity at any age; instead they would receive annual contributions to a TSP account which could follow them upon end of service to another job.³⁴ Members who have served at least 5 years on active duty would begin accruing benefits in a TSP account and in the event the member stays until the old retirement date of 20 years they would also receive $\frac{1}{4}$ of the benefits under the old plan, or approximately 12% of their pay at retirement. If a member was to leave active service before the

10 year mark they would be able to take their TSP account with them or cash it out, but would receive no type of fixed annuity at any time.

If a member is on active duty with 10 years of service they would also begin to accrue the TSP benefits. The member would also be eligible for 25% of the old retirement plan if they remain on active duty for 20 years. So if a member with over 10 years of active duty service gets out before the 20 year mark all they would retain upon separation would be the contributions they have made to the TSP. There is also a different calculation for a member who is on active duty past the 15 year mark and the 20 year mark the only difference is that upon normal retirement age they would receive the monthly annuity of 37.5% of base pay.

The premise of this proposal is the immediate implementation of a new system that does not take into account those that are currently on active duty. All active duty members of the armed forces of the United States signed a contract which cannot be altered by the member, so if that is the case can the government of the United States in good faith change the conditions of the contract? The only clear answer is that the United States government cannot change the conditions of the contract for those personnel who currently serve, to do so would certainly break faith with the active duty military. This proposal does take into account the biggest discrepancy of the current military retirement pay system, the lack of benefits for those members that serve less than 20 years, however as is the case with all of the proposed changes to the system it does not account for the long term effects. The price tag of freedom is not inexpensive are the citizens of the United States prepared to accept the consequences of the changes to the current military retirement pay system?

The United States of America has a proud military history borne of much sacrifice by those that serve in the profession of arms. What is the price for their service, how could a price tag be placed upon the service of the armed forces? No price tag could ever be placed on freedom and it would never be contemplated until it is lost. The military of the United States is a top notch organization due in large part to the training and education of its members, and the continual update of its state of the art equipment. The ability to train, educate, and equip the armed forces of the United States is paramount in maintaining the ability to defend the home land and protect crucial interests abroad. The vast differences between a civilian sector employee and a military member are numerous and exemplify the need for a different type of retirement system. The current military retirement pay system is the most promising option that is available to ensure that we recruit and maintain a force that is able to carry out the strategic objectives of the United States, to radically transform the current system in an effort to save money without considering the wide scope of possible ramifications could prove disastrous.

Appendix A

MILITARY RETIREMENT SYSTEM MULTIPLIERS (FOR NONDISABILITY RETIREMENT FROM ACTIVE DUTY)

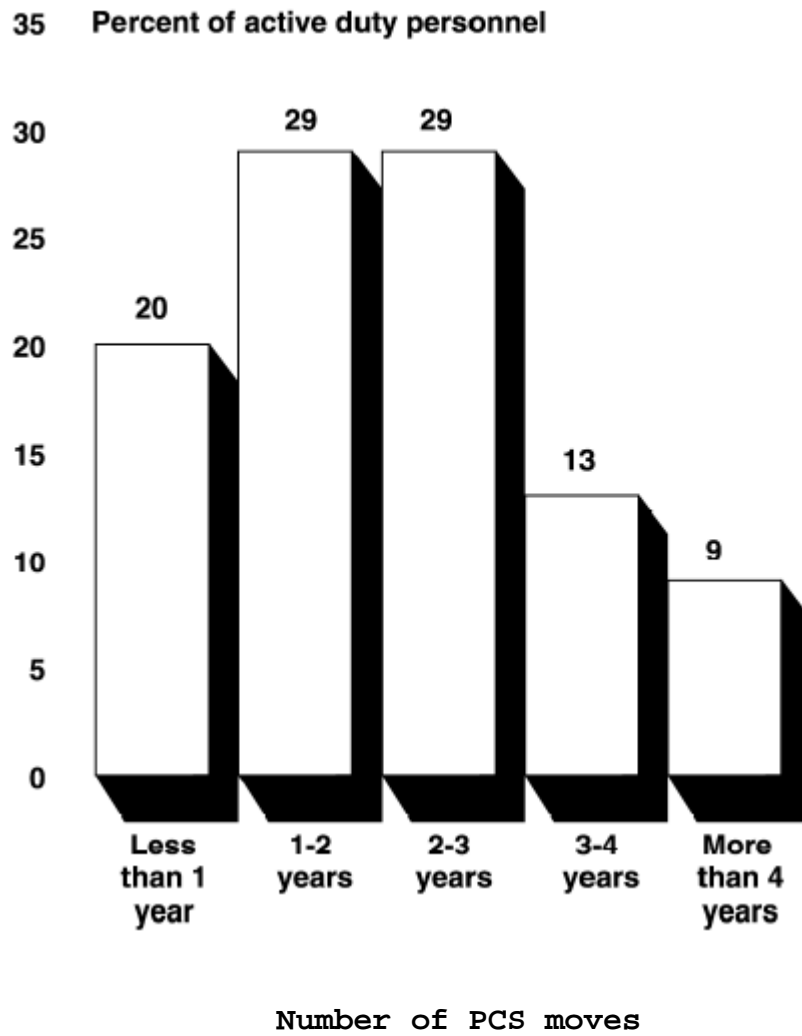
Years of Service	Final Pay/Hi-3 Multiplier	<u>CSB/Redux Multiplier</u>	
		Before Age 62	After Age 62
20	50%	40%	50%
21	52.5	43.5	52.5
22	55.0	47.0	55.0
23	57.5	50.5	57.5
24	60.0	54.0	60.0
25	62.5	57.5	62.5
26	65.0	61.0	65.0
27	67.5	64.5	67.5
28	70.0	68.0	70.0
29	72.5	71.5	72.5
30	75.0	75.0	75.0
31	77.5	77.5	77.5
32	80.0	80.0	80.0
33	82.5	82.5	82.5
34	85.0	85.0	85.0
35	87.5	87.5	87.5
36	90.0	90.0	90.0
37	92.5	92.5	92.5
38	95.0	95.0	95.0
39	97.5	97.5	97.5
40	100.0	100.0	100.0
41	102.5	102.5	102.5
42	105.0	105.0	105.0

Appendix B

Retirement System	Basis	Multiplier	COLA	Readjustment	Bonus
Final Pay	Final basic pay	2.5% per year up to 75%	CPI	None	None
High-3	Average of highest 36 months of basic pay	2.5% per year up to 75%	CPI	None	None
CSB/REDUX	Average of highest 36 months of basic pay	2.0% per year for the first 20 years; 3.5% for each year beyond 20, up to 75%	CPI - 1%	At age 62, 1) changes multiplier to 2.5% per year up to 75% 2) adjusts COLA to full CPI for past retired years	\$30,000 at 15th year of service with commitment to complete 20 year career

Retirement System	Criteria to Receive
Final Pay	Entry before September 8, 1980
High-3	Entry on or after September 8, 1980, but before August 1, 1986 OR Entered on or after August 1, 1986, and did not choose the Career Status Bonus and REDUX retirement system
CSB/REDUX	Entered on or after August 1, 1986, AND elected to receive the Career Status Bonus (if you do not elect to receive the Career Status Bonus, you will be under the High-3 retirement system)

Appendix C



Appendix D

FERS Basic Annuity Formula	
Under Age 62 at Separation for Retirement Or Age 62 or Older With Less Than 20 Years of Service	1 percent of your high-3 average salary for each year of service
Age 62 or Older at Separation With 20 or More Years of Service	1.1 percent of your high-3 average salary for each year of service

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